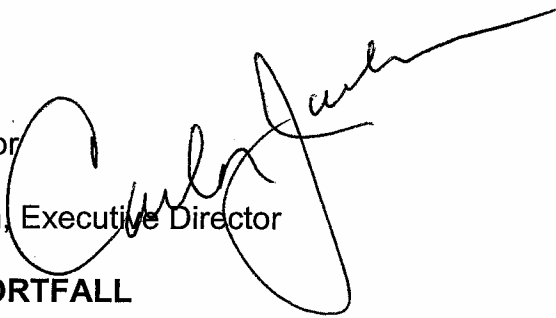


Housing Authority - County of Los Angeles

October 19, 2004

To: Each Supervisor
From: Carlos Jackson, Executive Director



SUBJECT: FUNDING SHORTFALL

In June, I submitted a memorandum to inform you of insufficient funding for the Section 8 Program by the U.S. Department of Housing and Urban Development (HUD). This shortfall was due to a change in the HUD formula of funding which was retroactive to January 1, 2004. Subsequently, I made several recommendations to reduce the projected loss of funds, which were approved by the Board on July 20, 2004 and implemented with an effective date of September 1, 2004.

On September 28, 2004, HUD published new Fair Market Rents (FMR's) effective October 1, 2004. FMR's are how HUD determines rental rates in our Section 8 Program for modest affordable units based on geographical areas. In July, we received your approval to lower our payment standards to 100% of the existing FMR's. The October 1, 2004, HUD FMR increases were approximately 10%, which in essence negated the anticipated cost savings approved by the Board to reduce the payment standards on July 20, 2004.

HUD is continuously revising the regulatory requirements for the Section 8 Program which forces HACoLA to reassess our plan to address the changes and the increasing deficit on an ongoing basis. The constant changes at HUD present difficulties in making projections; however, we are closely monitoring our fiscal position to determine the impacts these changes may have on the program as they occur.

In our ongoing effort to receive additional monies for the program through various appeals to HUD, we were successful in receiving an additional \$5.1 million to cover funding shortfalls for FY 2003-2004 and 6 months of FY 2004-2005. Unfortunately, this is still not sufficient to sustain the program.

Currently, HUD is funding HACoLA \$13.9 million for monthly landlord payments through Housing Assistance Payments (HAP). Our current HAP is approximately \$14.3 million which leaves us with a monthly shortfall for the year projected at an average of \$415,000 per month. To cover this shortfall, we have been utilizing our program reserves authorized by HUD for HACoLA at \$5.2 million. It is anticipated that at this current pacing, these reserves will be depleted by July 2005.

Staff is conducting further analysis, upon completion, I will submit recommendations to the Board for further program cost reductions.

Please call me if you have any questions.

CJ:KRS